

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
----- 091892

P 081530Z JUL 75

FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC PRIORITY 8189

C O N F I D E N T I A L SECTION 1 OF 2 KINGSTON 2585

EXDIS

EO 11652: GDS

TAGS: EMIN, EINV, JM, US

SUBJECT: REVERE SHUTDOWN: LETTER TO PRIME MINISTER

REF: KINGSTON 2579

DEPT PASS OPIC

FOLLOWING IS TEXT OF LETTER DELIVERED TO PM MANLEY
JULY 4 BY REVERE ANNOUNCING THE SHUTDOWN OF THEIR
JAMAICA ALUMINA PLANT:

BEGIN TEXT

IN MY LETTER OF MARCH 31, 1975 I REQUESTED THAT THE
GOVERNMENT EXPLORE WITH US THE IMPLICATIONS OF THE ECONOMIC
STATUS OF OUR JAMAICA ALUMINA PLANT. ON APRIL 14TH MR MASON
ADVISED ME THAT THE GOVERNMENT NEGOTIATING TEAM UNDER THE
LEADERSHIP OF MR PAT ROUSSEAU HAD BEEN REQUESTED TO EXAMINE
THE POINTS IN MY LETTER. SINCE THAT TIME, THERE HAVE BEEN
A SERIES OF MEETINGS BETWEEN THE NATIONAL BAUXITE COMMISSION
AND REVERE'S REPRESENTATIVES IN KINGSTON.

AT THE FIRST OF SUCH MEETINGS HELD ON MAY 21, THE REVERE
TEAM ADVISED THE MEMBERS OF THE NATIONAL BAUXITE COMMISSION
OF THE ECONOMIC STATUS OF REVERE JAMAICA'S ALUMINA PLANT AND
INDICATED THAT WE HAD REACHED A POINT WHERE WE FELT IT NECESSARY
TO EFFECT A TEMPORARY SHUTDOWN OF THE PLANT.

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IN THIS CONNECTION, WE REQUESTED FULL FORCE MAJEURE RELIEF FROM THE MINIMUM PRODUCTION LEVY AND STATED THAT WE WOULD REQUEST THE MINISTER OF MINES' CONSENT TO THE CESSATION OF BAUXITE MINING OPERATIONS FOR THE SHUTDOWN PERIOD BECAUSE WE ESTIMATED THAT IT WILL BE IN EXCESS OF SIX MONTHS. AT THE FIRST MEETING, THE NATIONAL BAUXITE COMMISSION REQUESTED FURTHER INFORMATION WHICH WAS FURNISHED ON MAY 22 IN A LETTER TO MR. ROUSSEAU FROM MR. MOLOWA, A COPY OF WHICH IS ENCLOSED.

AT A SUBSEQUENT MEETING ON JUNE 2, MR. ROUSSEAU RESPONDED TO MR. MOLOWA'S LETTER AND A COPY OF MR. ROUSSEAU'S LETTER IS ENCLOSED. SUBSEQUENTLY ON JUNE 12 THE PARTIES MET AGAIN AT WHICH TIME REVERE PROPOSED THE GENERAL PARAMETERS FOR AN AGREEMENT UNDER WHICH THE GOVERNMENT MIGHT CONSIDER ACQUIRING AN INTEREST IN REVERE JAMAICA ALUMINA, LTD.

REVERE'S PROPOSAL WAS REJECTED BY THE NATIONAL BAUXITE COMMISSION AND NO FORMAL COUNTERPROPOSAL WAS MADE. INSTEAD, THE REVERE REPRESENTATIVES WERE ADVISED THAT REVERE SHOULD RETHINK ITS PRESENT POSITION AND PRESENT ANOTHER PROPOSAL TO THE GOVERNMENT. AFTER REVIEWING THE GOVERNMENT'S RESPONSE WE DO NOT PERCEIVE ANY BASIS FOR A FURTHER PROPOSAL ON REVERE'S PART THAT COULD PROVIDE A MUTUALLY ACCEPTABLE STARTING POINT FOR NEGOTIATIONS.

THE PRIMARY ALUMINUM INVENTORY OF OUR SCOTTSBORO PLANT HAS CONTINUED GROWING AND NOW EXCEEDS SIX MONTHS' PRODUCTION. TOGETHER WITH OUR PARTNER, CONALCO, WE HAVE ALREADY SHUT DOWN OUR ORMET ALUMINUM PRODUCTION AS OF JANUARY 1 TO THE LOWEST FEASIBLE ECONOMIC LEVEL, AN OPERATING RATE OF 50 PERCENT. CONSEQUENTLY, WE HAVE BEEN FORCED TO CURTAIL SCOTTSBORO ALUMINUM PRODUCTION TO THE LEVEL OF 70 PERCENT AND ARE WEIGHING A STILL FURTHER CUT. OUR JAMAICAN PLANT HAS ONLY ONE DIGESTION TRAIN AND IS BOTH SMALL AND INFLEXIBLE SO WE COULD NOT CUT BACK OPERATIONS TO A 70 PERCENT LEVEL WITHOUT INCREASING ALREADY EXCESSIVE ALUMINA COSTS TO THE \$250 PER TON LEVEL.

NEITHER DO WE HAVE THE MEANS TO STORE OR ANY MARKETS IN WHICH TO DISPOSE OF EXCESS ALUMINA PRODUCTION, PARTICULARLY

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AT ANYTHING NEAR IS COST.

WE HAVE REACHED THE END OF OUR CREDIT LINES WITH OUR BANKS, ARE UNABLE TO FINANCE ANY MORE INVENTORY AND ARE REQUIRED TO CLOSE THE JAMAICA OPERATION IN ORDER TO REVERSE OR REDUCE OUR NEGATIVE CASH FLOW. THIS HAS BEEN STRONGLY ENJOINED UPON US BY OUR BANKS AS A CONDITION OF THEIR WILLINGNESS TO ENTER INTO AN ADDITIONAL CREDIT FACILITY WHICH THIS COMPANY

MUST HAVE IN ORDER TO SURVIVE.

IN SUMMARY, I SEE NO WAY IN WHICH WE CAN PRESENTLY CONTINUE TO OPERATE IN JAMAICA WITHOUT BANKRUPTING THE ENTIRE REVERE FIRM. WE HAVE ABSORBED THE HEAVY, CONTINUING LOSSES OF THE JAMAICAN OPERATION BY USING UP THE RESOURCES OF REVERE AND THE LONGER TO DO EITHER SINCE OUR AVAILABLE FUNDS HAVE BEEN EXHAUSTED AND OUR OTHER BUSINESSES, INCLUDING OUR TOTAL ALUMINUM BUSINESS, ARE GENERATING LARGE LOSSES. GERARD

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ACTION SS-25

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P 081600Z JUL 75

FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC PRIORITY 8190

C O N F I D E N T I A L SECTION 2 OF 2 KINGSTON 2585

EXDIS

IT IS WITH GREAT RELUCTANCE AND REGRET THAT I INFORM YOU THAT WE MUST PROCEED TO CLOSE THE PLANT TEMPORARILY. WE ESTIMATE THAT THIS WILL TAKE ABOUT TWO WEEKS. WE HAVE SOUGHT BY ANY REASONABLE MEANS TO AVERT THIS COSTLY AND DIFFICULT SITUATION. DURING THE PERIOD OF THE SHUTDOWN, WE EXPECT TO STUDY THE POSSIBILITY OF MODIFYING THE PLANT BY FURTHER CAPITAL INVESTMENT TO EXPAND THE ANNUAL PRODUCTION RATE TO 300,000 TONS. WE WOULD BE PLEASED TO HAVE GOVERNMENT'S INTEREST AND COOPERATION IN THESE STUDIES. WE WILL ALSO REVIEW THE FEASIBILITY STUDY FOR THE LARGER EXAPNSION AND CONSULT WITH MEMBERS OF THE JAMPANESE CONSORTIUM WHO ARE ALSO REVIEWING THE STUDY AT THIS TIME.

THE TIMING OF THE REOPENING OF THE PLANT WILL, OF COURSE, DEPEND ON GENERAL ECONOMIC CONDITIONS AND THE ECONOMIC HEALTH OF THE ALUMINUM INDUSTRY, OF REVERE AND REVERE JAMAICA. THEREFORE, I WISH TO REQUEST THAT YOU INTERVENE AND ASSIST US IN OBTAINING FORCE MAJEURE RELIEF FROM THE MINIMUM PRODUCTION LEVY DURING THE PERIOD OF THE SHUTDOWN. I WOULD ALSO ASK

THAT YOU ASSIST US IN OBTAINING THE CONSENT OF THE MINISTER
OF MINES TO THE CESSATION OF BAXUITE MINING FOR A PERIOD IN
EXCESS OF SIX MONTHS.

IF FOR ANY REASON YOU OR YOUR REPRESENTATIVES WISH TO
DISCUSS ANY MATTER WITH MR. MOLOWA AND THE REVERE TEAM, THEY
WILL BE STAYING AT THE PEGASUS HOTEL UNTIL JULY 5, 1975.

END TEXT. GERARD
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